

Published by

The Empire

Bloomberg's testimony on the state budget

Feb 7, 2011 · by [Azi Paybarah](#)

As prepared:

"The answer lies not in the market, or in the stars, but in ourselves. We need to right-size pension benefits to save City taxpayers and City workers. The answer lies not in the market, or in the stars, but in ourselves. We need to right-size pension benefits to save City taxpayers and City workers."

MAYOR BLOOMBERG TESTIFIES BEFORE THE STATE ASSEMBLY WAYS AND MEANS COMMITTEE AND STATE SENATE FINANCE COMMITTEE ABOUT IMPACT OF PROPOSED STATE BUDGET ON NEW YORK CITY

The following is Mayor Michael R. Bloomberg's testimony as prepared. Please check against delivery:

"Good morning. Thank you to our Chairmen, Denny Farrell and John DeFrancisco, to the committee's ranking minority members, Jim Hayes and Carl Kruger, and to the other members of both the Assembly Ways and Means Committee and the Senate Finance Committee. Seated with me are Mark Page, our director of Management and Budget, and Micah Lasher, our director of State Legislative Affairs.

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Hyman Decl. Ex. LL-1

"Thank you for inviting us to discuss the State budget as proposed by Governor Cuomo. We all know that, even in good economic times, adopting a budget isn't easy. And these are very far from the best of times.

"So your task – adopting a State budget that closes a \$10 billion shortfall between revenues and projected expenses, one of the largest such budget gaps in State history, and one that addresses the even larger deficits projected for next year – is not an enviable one. It will require foresight and fairness and fortitude.

"Clearly, the Governor has inherited a miserable budget situation. He deserves credit for addressing it head-on.

"He knows as much as anyone, the State has a responsibility to fund basic services that protect all our citizens and fund those investments that give our children a future, while at the same time, it must act responsibly and cut spending, since we are currently living beyond our means.

"He knows we face a State deficit of unprecedented proportions. The current spending situation is simply unsustainable.

"These times demand fiscal discipline, especially because we are in an environment where we face increasing competition for taxpayers and jobs. Our taxes are already among the highest in the nation. But think about the irony: while our taxes are the highest, and they fund some of the best benefits in the country for municipal workers, many of our municipal workers when finishing their careers have chosen low-tax states to live in.

"If those to whom we are paying retirement benefits are leaving the city, we must be very close to the tipping point where more and more private sector working taxpayers examine their economic options as well. We can't afford to lose them – because that is our tax base, and without it we don't have a state.

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"So New York State must take action – and we strongly endorse major elements of the Governor's Executive Budget: the wage freeze for State employees; the proposed merging of 11 State agencies into just four; the consolidation of State prison beds; and the closing of under-used juvenile detention facilities, a subject I'll come back to in a few minutes.

"Now, we in New York City long recognized that given the State's dire fiscal straits, cuts in aid to the City are inevitable. And next week, I will present our preliminary budget for Fiscal Year 2012, which begins July 1st. As I have said repeatedly, we pledge to shoulder our share of the burden, but it won't be easy.

"The Governor's Executive Budget proposes a reduction in aid to the City that totals \$2.1 billion. That includes a reduction of approximately \$1.4 billion in aid to our public schools; \$361 million in cuts and cost shifts in social services; and a \$300 million cut in revenue sharing funds.

"How do we arrive at these numbers?

"We calculate the amount of State aid we're losing based on this perfectly unambiguous standard: comparing the funding in the Executive Budget to the amount that the State told us last November we'd be receiving.

"The City's budget is part of a multi-year financial plan; it's a sound budget process that has served the City very well for a very long time. And as the State has known for a long time, when we assume future revenues and expenses over multiple years, we use the data given to us – and we make long-term commitments that assume the State's promises are honored by successive administrations.

"We have no other choice: the public needs services over the long-term, and we have to budget for those long-term obligations based on what the State tells us.

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Hyman Decl. Ex. LL-3

"So if Albany feels that it must walk away from their obligations because of previous mismanagement, which leaves us with enormous holes in our budget, it's critical that the Governor and State Legislature help us reduce our expenses so we can avoid the kind of layoffs and services cuts that would be devastating to our City.

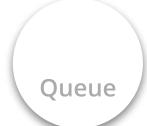
"Since 2007, New York City has gone through nine rounds of cuts that have produced \$5.2 billion in savings – and in service cuts, too. Let me point out, the State up to now has done none of this belt-tightening, which is why it's in such terrible shape and its citizens and employees are going to suffer. And although the City has already taken major steps on our own to reduce our expenses, this year – more than ever – we need your help.

"We are evaluating this year's State budget based on two tests: first: does it apportion its reductions in aid equitably? And second: does it provide our city, and other localities, with relief from State-imposed mandates?

"These two tests are critically important, because make no mistake: we are facing the prospect of heavy layoffs, especially in our schools. We don't know how many it will be – it's too early to tell.

"What I can tell you is that we are going to do everything possible to reduce the number, but if we don't get mandate relief from Albany, the number of layoffs will be dramatically higher than it needs to be. And that would be especially tragic for our school children if the 'last-in, first out' law stays on the books, a topic I'll return to later.

"It's also important that we get mandate relief, because if we don't, we'll find ourselves back here again next year, and the years after that – cutting more and more services, and laying off more and more workers, because of the costs that keep rising and taking up more and more of our budget.

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"Let's take a few minutes to consider the two criteria on which we're judging the Executive Budget.

"On the question of equitable cuts, the Executive Budget singles out New York City in one particularly egregious area: revenue sharing. Since the '40s, through Democratic and Republican governors, every locality has received aid through the revenue sharing program, which simply returns a portion of taxpayers' money back to their home towns.

"Last year, for the first time in history, our revenue sharing was cut 100 percent – while every other locality lost only three to five percent. But we succeeded – thanks to your support and leadership – in getting it back into the State's budget for the next fiscal year.

"Unfortunately, this year's executive budget again proposes to zero us out, while cutting every other locality by only 2 percent. And since revenue-sharing provides general operating dollars, one way to think about the State's elimination of revenue-sharing for the City is as another \$300 million cut to our public schools.

"Here's another way to look at it: the Executive Budget cuts revenue-sharing statewide by some \$320 million. New York City would absorb 94 percent of that cut. It was a disgraceful gimmick last year when we were cut 100 percent, and our citizens are not going to let it become the 'new normal' in the State's relationship with New York City.

"As you may know, New York City produces roughly half of all State tax revenues – we give far more than we get back. So eliminating these \$300 million in State funds would worsen an already very pronounced imbalance of payments between New York City and Albany. It also would aggravate an already difficult budget season in our city.

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Hyman Decl. Ex. LL-5

"Revenue-sharing funds are as important to us as they are to any other locality. Like every other city and town, from Montauk to Malone, we value revenue-sharing funds for the spending flexibility they give us. So we're not asking for special treatment – only equitable treatment.

"I've heard it said: 'Oh, New York City, you aren't in as bad shape as other counties in the State.'

"Perhaps, but we should not be penalized for our frugality and responsible budgeting – that would only create disincentives for future administrations to save and budget prudently. We've already raised our own taxes and cut our own expenses – and City residents shouldn't be punished for doing what was right, while others refused to accept responsibility for their future.

"And it's critical that the City's Assembly members and Senators stick together to protect the voters who sent you here.

"Now, let's talk about our second major test: does the State Budget relieve us of unfunded mandates and other laws that would allow us to save money and avoid some of the layoffs and service cuts we are facing?

"In many instances, State and Federal mandates dictate the number and level of services we're required to provide and the amount of money we're required to pay. We have no discretion in these areas. So in these instances, without mandate relief, there can be no reduction in taxpayer spending – just a shift in whose pocket the money comes from.

"Take the \$1.4 billion cut we are facing in education. Because of State mandates, we cannot simply cut every aspect of education to come up with \$1.4 billion.

"For example, State mandates will increase costs in special education by percent from the current school year to the next one. In fact, State law

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requires New York City taxpayers to send some special education students to private schools – and pay their full tuition – even if their parents refuse to consider City schools that provide special education services.

“So right now, City taxpayers are actually paying full private school tuition for 4,000 students – at a cost of more than \$100 million a year.

“We can provide services to those students at a fraction of that cost – all we need is your approval to put the burden of proof on whichever party bring the case, whether it be a locality or parents, as nearly every other state does, and is consistent with the U.S. Supreme Court’s ruling on the issue.

“Otherwise, we’re going to be laying off teachers in our public schools so we can pay \$100 million to private schools It’s time the taxpayers stop sending kids to schools we just can’t afford.

“The \$1.4 billion education cut also reduces by \$120 million the State’s funding for summer school special education in our City. But this is also a Federal and State mandate; we can’t walk away from it. Whatever funding isn’t restored, the City will have to make up.

“We also face State mandates in procurement and civil service that drive up our costs. And the State mandate that has become prohibitively costly, and impossible to justify in light of the layoffs we are facing, is the \$12,000 bonuses that we pay on top off full pension benefits to some retirees.

“The size of the bonus originally fluctuated with the market. That’s why it’s called a Variable Supplement Fund. But in the 1980s, it became a fixed benefit – and City taxpayers are now kicking in more than \$600 million to subsidize it every year. We just can’t afford that any more.

“Ending the bonuses would save the City upwards of \$1 billion annually – that’s the equivalent cost of more than 10,000 teachers, police officers, firefighters, sanitation workers, and correction officers.

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"Now, let me step back and say: I believe we have the best workforce in the world. I believe they should be compensated fairly – and that public employees deserve a safe and secure retirement. But our pension costs have skyrocketed – and paying some retirees another \$12,000 on top of full benefits is just not something we can afford to keep doing.

"Nor can we afford to continue to see our pension costs take up a larger and larger share of our budget. Our pension costs in 2001 were \$1.5 billion. This year pensions are costing us \$7 billion. And next year they will cost us \$8.3 billion.

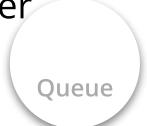
"So that means every extra dollar we have had to spend on pensions is one more dollar we have had to cut from police, fire, education, social services, senior centers, libraries, and so on down the list.

"That just can't continue. We need to slow the growth in pensions – and this is not a problem that will be solved by a market recovery. The fact is, pension costs have risen through market booms and busts. The bear market didn't create the current pension crisis, and a bull market won't make our problems go away. The answer lies not in the market, or in the stars, but in ourselves. We need to right-size pension benefits to save City taxpayers and City workers.

"In particular, we need to create a new pension tier for newly hired City workers. That's exactly what State leaders did during the budget crisis of the 1970s; it was hugely important to New York City's fiscal recovery.

"Last week, we proposed a number of modest, minimum steps to slow the growth in pension payouts and allow us to keep more of the money for the services we need.

"Our proposed new pension tier would save the City up to \$1 billion over the next eight years, by modestly increasing member contributions,

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eliminating the overtime 'padding' of benefits, and raising the retirement age for civilian workers.

"I want to be clear: we are not proposing a change to the retirement age for career police officers and firefighters. They can currently retire and receive benefits after 22 years of service with no minimum age requirement, and that remains unchanged in our plan.

"The time has also come to return to the City the ability to negotiate pensions as part of collective bargaining, just as we do with wages and benefits. I've always strongly believed in the ability of labor and management to 'get to yes' on important issues.

"And the process of State elected officials setting pension benefits for City workers, and City taxpayers picking up the tab, must end. This responsibility belonged to the City up until the 1970s. We believe we have earned the right to get it back.

"All of these changes I've discussed are reforms that wouldn't cost the State a dime, but they would shrink City costs, and help us reduce the level of layoffs and service cuts we will have to make. And unless this body acts, those layoffs will be particularly devastating to our schools.

"State law includes a 'last in, first out' provision, which would force us to lay off some of our very best teachers, while keeping some of our worst. Those layoffs would be felt heavily in the city's poorest neighborhoods, where schools tend to have the newest teachers.

"And they'd send exactly the wrong message to our children. We tell them: work hard, and you can rise as high as your talents can take you. But in their classrooms they'd see that that's not really true.

"Clearly the only thing worse than having to lay off any of our teachers would be laying off great teachers instead of failing ones. So we need to

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able to make these difficult decisions based on what matters most: success in the classroom and what's good for kids.

"We can't do this without you – and if you act, I promise you every student will thank you. Every parent will thank you. Every teacher who works hard and performs well will thank you. And I will thank you from the bottom of my heart for allowing the progress in our schools to continue.

"We would do this ourselves if we had the authority, but we don't. Only you do.

"And don't forget, because of the union contract 'bumping' provisions, seniority-based layoffs would have virtually every school participating in a merry-go-round of teacher changes that would create a firestorm of complaints like you've never seen before.

"Before leaving the topic of education, I want to point out that the Executive Budget also proposes a new formula for building aid which would have very harmful consequences for the City's 1.1 million schoolchildren.

"In our upcoming fiscal year, the City's Education capital program totals approximately \$3 billion. Historically, the State has paid for 50 percent of the City's Education capital program. So the State would pay for approximately \$1.5 billion of education capital in our Fiscal Year 2012 budget, based on past history.

"Under the new formula, however, the State would provide us with approximately \$500 million, resulting in a cut of two-thirds. That would mean we would have to substantially scale back construction and renovation of schools across the City.

"The courts have ruled that class size is too great as it is. Just imagine what would happen if the State does cut its support for school construction by Hyman Decl. Ex. LL-10

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67 percent. It would be a huge setback – and make it much harder for us to relieve the pockets of overcrowding that exist.

“And incredibly, it would be compounded by another change to the State budget: the creation of a new, six-tier State structure for evaluating local school capital projects. That’s a recipe for bureaucratic inaction and delay – and it would also make it harder for local elected officials, and community leaders, to make your voices heard on projects in your districts.

“We’ve had great success speeding up school construction and bringing down its cost – but this new bureaucratic super structure threatens to send us back in the opposite direction.

“Now, in addition to cuts in education, the Executive Budget also proposes a net cut of \$400 million in Social Services.

“More than half of that is, in fact, not a cut at all, but a shift of spending from the State’s budget to the City’s. For example: the budget proposes a \$31 million reduction in support for homeless shelters for single adults in our city; a \$45 million cut in subsidies for kids in adoptive homes; and the elimination of \$53 million to cover residential costs of educating severely handicapped children.

“These are all State and Federal mandates – and the City will have no recourse but to fulfill them, State cuts or no.

“The public says ‘spend less.’ But Albany forces us to ‘spend more.’ And our employees, and those who need their services, are getting crushed in the middle, because we are spending on things we don’t need while sacrificing the things we do need.

“Other social service cuts to the City include \$27 million for senior centers: a loss to the City of \$192 million in rental subsidies for homeless families.

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and a more than \$9 million cut that would wipe out 5,500 summer jobs for young people in our city.

"I also want to comment on what the Executive Budget would, and would not, accomplish in juvenile justice reform. The Governor's proposal to close some of the overpriced and under-used juvenile facilities is a very welcome first step toward long-needed reform.

"It's a step that should save us all money. But instead, the Executive Budget would put the savings – and more – back into the facilities that remain open. So we may be cutting the waste, but we'd still spending more on a system that doesn't work.

"Financially, we'd be better off with the status quo. But even more important: the young offenders and the public would both be better off if the State would allow us to run our own programs in the City – and all of you can make it happen.

"The Governor also proposes to 'block grant' the State's support for local detention and community programs. But this comes in the form of less money and less flexibility, and over time this is likely to mean increased local costs.

"Since 2002, our city has cut by more than 60 percent the number of kids sent to the State's dysfunctional and astronomically expensive juvenile institutions. We're prepared to do even more. But the State must reinvest some of the money it saves in community alternatives.

"Then there is the great 'known unknown' in this year's State budget: Medicaid.

"The Governor has set a target of reducing State support for Medicaid by some \$2.85 billion. This means a \$5.7 billion reduction in total spending

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statewide, because federal spending goes down too. But we will not know for many weeks what precisely that may mean.

"So at this point, our message to the Governor's Medicaid task force is: wherever excessive overhead can be cut without harming patient care – as in the administration of long-term care: go for it.

"But, as you make Medicaid cuts, don't lose sight of how important Medicaid is to the services provided by largest, and the best public hospital system in the nation: New York City's Health and Hospitals Corporation.

"Our network of community clinics and 11 public hospitals care for 1.3 million patients every year. They handle more than a million emergency department visits every year. They deliver 23,000 babies every year. They provide outstanding care to every patient, regardless of their illness, income, insurance coverage, or immigration status. They are nothing short of essential to health care in our city – and keep in mind: as other hospitals close, those patients will inevitably come to us, and we cannot turn them away.

"The Governor concluded his budget presentation last Tuesday by describing New York State as being at a crossroads – facing a choice between paths to ruin or recovery. The State budget is also at a 'crossroads moment' in the State's relationship with New York City.

"The Governor is right. We must change. And we must help him do it.

"At the same time, we must think of the budget process first by asking: What are society's needs? Second, we then have to figure out how to provide them most efficiently. Third, and lastly, so we don't let the tail wag the dog – we then have to figure out where we get the money from.

"I think we know in our hearts what society needs. I've just outlined how you can help us reduce costs and deliver those services more efficiently.

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And if you do that, you will be able to find the funds we need – without raising taxes, and without walking away from our obligations to our citizens.

“I’m confident that the Governor and the members of the Legislature will choose the right path forward. We want you to be successful in tackling these tough issues – and we’ll do everything we can to help and support you.

“We can have the spending reduction the Governor wants and we need – but if we want to preserve the economic engine of our state, if we want to put our kids and seniors first, if we want to protect services to the neediest and continue investing in our future – we need the tools to spend money based on those priorities, not based on antiquated State mandates.

“Yes, the special interests will scream. But I promise you, this time, as you saw clearly in this state and across the entire nation in the last election, the public scream will louder.

“If you enact a budget that is tough, but fair and that gives New York City the mandate relief and the new reform tools that we need, this legislature will be remembered not for dysfunction, but for its wisdom and leadership. And on that note, I’ll be glad to take your questions.”

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 [2 Comments](#)